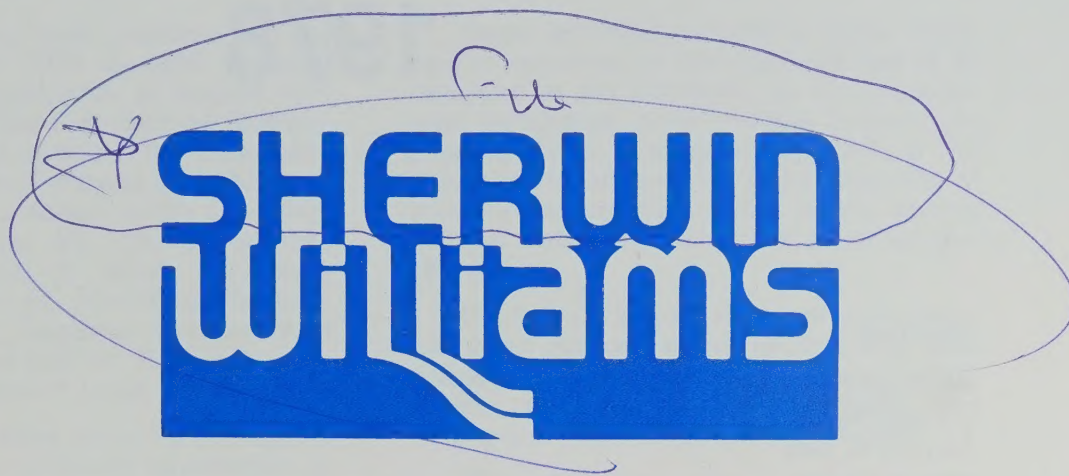




ANNUAL REPORT 1978

The Sherwin-Williams Company of Canada Limited

Annual Report 1978

Directors

W. Edgar Bronstetter, Q.C.
John K. Brown
Richard G. Bull
John N. Cole
Ronald F. Curley
C. Alex Duff
George J. Leonidas
Charles E. Reckitt

Officers

Ronald F. Curley
Chairman and Chief Executive Officer
Charles E. Reckitt
Vice-President and Secretary-Treasurer
John K. Brown
Vice-President and Director of Sales
Jack E. Huggett
Region Vice-President Sales — Ontario/West
Robert G. Prenovost
Region Vice-President Sales — Quebec/East

Head Office

2875 Centre Street, Montreal H3K 1K4, Canada

To the Shareholders:

The continuing loss position of our Company through 1978 brought about a management reorganization. In August, R.F. Curley, a Senior Vice-President of Sherwin-Williams Ohio, was assigned the responsibility of returning the Company to profitability through personal direction of the operation. Subsequent to this, Mr. J.K. Brown was appointed Director of Sales, Mr. D.M. Williams, Director of Marketing Services, Mr. J.E. Huggett, Regional Vice-President Sales Ontario/West and Mr. R.G. Prenovost, Regional Vice-President Sales Quebec/East.

These moves were made to strengthen our analytical and planning capabilities in the marketing area and our selling activities in the field.

Prior changes in merchandising and pricing practices had not proved successful and had contributed to severe inventory and customer service problems.

The correction of these problems was essential to the return to profitability of the Company. The decision was to act quickly, for while the cost of correction would be high it would be no less high if extended over time and such a delay was unacceptable.

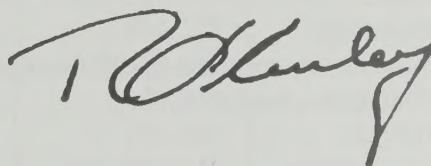
These unusual costs of \$1.7 million contributed to the increased loss in 1978 of \$5 million.

These activities included a major reduction in personnel. A Zero Base Review of all activities of the Company. An identification and withdrawal from certain unprofitable product areas. A major realignment of our merchandise lines and a rapid reduction of inventory to pre 1976 dollar levels, despite inflated values. These have been accomplished.

The Company is now in position to better serve the markets of its choice with more economical production, more efficient distribution, more aggressive advertising and selling and more effective use of capital.

These changes could not have been made in this short time without the dedication and involvement of all our people and we congratulate and thank them for their understanding and support.

The concern of shareholders and all Company personnel, for the poor performance and the very high cost of correction, cannot be overstated. However, if the unusual costs related to the corrective activity were set aside, the Company operations would show improvement in the last quarter, particularly November and December, and the new year should see a continuation and escalation in the rate of improved profitability.



Chairman and Chief Executive Officer

Montreal, Quebec
February 15, 1979

Balance Sheet

Assets	December 31	
	1978	1977
CURRENT ASSETS		
Cash	\$ 112,700	\$ 101,150
Trade accounts receivable	6,871,042	5,770,314
Other accounts receivable	215,960	243,468
Recoverable income taxes	—0—	59,888
Inventories:		
Finished merchandise	14,754,746	16,048,884
Work in process, raw materials and supplies	2,639,937	2,910,100
	17,394,683	18,958,984
Prepaid expenses	1,122,224	1,203,730
TOTAL CURRENT ASSETS	25,716,609	26,337,534
OTHER ASSETS — Note 2	587,440	84,665
PROPERTY, PLANT AND EQUIPMENT		
Land	457,534	457,534
Buildings	5,557,387	5,457,093
Machinery, equipment and leasehold improvements	11,772,272	11,519,229
	17,787,193	17,433,856
Less provision for depreciation and amortization	12,362,043	11,748,481
	5,425,150	5,685,375
	\$31,729,199	\$32,107,574

Liabilities and Shareholders' Equity

	December 31	
	1978	1977
CURRENT LIABILITIES		
Bank indebtedness	\$ 7,032,885	\$ 4,357,920
Short-term borrowing	5,000,000	3,000,000
Trade accounts payable	3,023,305	4,004,836
Due to parent	718,143	107,909
Compensation and amounts withheld	716,233	502,395
Interest and other accruals	221,874	214,132
Taxes, other than income taxes	97,204	95,730
TOTAL CURRENT LIABILITIES	16,809,644	12,282,922
NOTES PAYABLE — Note 3	5,334,914	5,000,000
UNFUNDED PENSION COSTS		
REDUCED TO NET OF TAX BASIS — Note 4	427,579	505,935
SHAREHOLDERS' EQUITY		
Capital Stock:		
Preferred, 7% cumulative, par value \$100 per share — authorized 40,000 shares, outstanding 17,300 shares	1,730,000	1,730,000
Common, no par value — authorized 225,000 shares, outstanding 224,720 shares	224,720	224,720
	1,954,720	1,954,720
Retained earnings	5,472,342	10,633,997
Capital surplus	1,534,850	1,534,850
Contributed surplus	195,150	195,150
	9,157,062	14,318,717
CONTINGENT LIABILITY — Note 8		
	\$31,729,199	\$32,107,574

See notes to financial statements

APPROVED ON BEHALF OF THE BOARD:

W. Edgar Bronstetter, *Director*

C. Alex Duff, *Director*

The Sherwin-Williams Company of Canada Limited

Montreal

Statement of Operations

	Year Ended December 31	
	1978	1977
Net sales	\$63,077,424	\$60,444,428
Costs and expenses (including depreciation of \$793,431 in 1978 and \$764,952 in 1977):		
Cost of products sold	43,152,497	39,315,592
Selling, general and administrative expenses	23,399,182	22,565,007
Interest (including interest on long-term debt \$502,414 in 1978 and \$472,630 in 1977)	1,477,276	1,020,113
	<u>68,028,955</u>	<u>62,900,712</u>
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	4,951,531	2,456,284
Income taxes:		
Current	—0—	333,000
Deferred (credit)	89,024	(580,000)
	<u>89,024</u>	<u>(247,000)</u>
LOSS BEFORE EXTRAORDINARY ITEMS	5,040,555	2,209,284
Extraordinary items:		
Gain on disposals of a building and land	—0—	440,113
NET LOSS	<u>\$5,040,555</u>	<u>\$ 1,769,171</u>
Loss per common share:		
Loss before extraordinary items	\$ 22.97	\$ 10.37
Extraordinary items (gain)	—0—	(1.96)
NET LOSS PER COMMON SHARE	<u>\$ 22.97</u>	<u>\$ 8.41</u>

See notes to financial statements

Statement of Retained Earnings

	Year Ended December 31	
	1978	1977
Balance at beginning of year.....	\$10,633,997	\$12,524,268
Net loss.....	(5,040,555)	(1,769,171)
	<u>5,593,442</u>	<u>10,755,097</u>
Deduct:		
Dividends on preferred shares.....	<u>121,100</u>	<u>121,100</u>
BALANCE AT END OF YEAR	<u>\$ 5,472,342</u>	<u>\$10,633,997</u>

See notes to financial statements

The Sherwin-Williams Company of Canada Limited

Montreal

Statement of Changes in Financial Position

	Year Ended December 31	
	1978	1977
FUNDS USED		
By operations:		
Loss before extraordinary items	\$ 5,040,555	\$ 2,209,284
Items not requiring outlay of working capital:		
Provision for depreciation and amortization (deduction)	(793,431)	(764,952)
Deferred income tax (debit)	(89,024)	580,000
TOTAL USED BY OPERATIONS BEFORE EXTRAORDINARY ITEMS	4,158,100	2,024,332
Extraordinary items	—0—	(440,113)
TOTAL USED BY OPERATIONS	4,158,100	1,584,219
Other:		
Proceeds from disposal of property and equipment	(8,976)	(523,973)
(Loss) gain on disposal of property and equipment	(7,153)	440,113
Additions to property, plant and equipment	549,335	1,193,273
Dividends paid	121,100	121,100
Increase in note payable	(334,914)	—0—
Reduction of past service pension liability	167,380	316,569
Net increase (decrease) in other assets	502,775	(174,422)
DECREASE IN WORKING CAPITAL	\$ 5,147,647	\$2,956,879
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Trade accounts receivable	\$ 1,100,728	\$ (1,254,768)
Recoverable income taxes	(59,888)	(904,113)
Inventories	(1,564,301)	596,462
Realizable income taxes	—0—	(333,000)
	(523,461)	(1,895,419)
Increase (decrease) in current liabilities:		
Bank indebtedness — net of cash	2,663,415	1,316,437
Short-term borrowings	2,000,000	—0—
Trade accounts payable	(371,297)	(426,460)
Others — net of immaterial current assets	332,068	171,483
	4,624,186	1,061,460
DECREASE IN WORKING CAPITAL	\$ 5,147,647	\$ 2,956,879

See notes to financial statements

Notes to Financial Statements

December 31, 1978

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventories: Inventories are stated at lower of cost (average or first-in, first-out method) and net realizable value for finished merchandise and replacement cost for other inventories.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost. Provisions for depreciation are based on rates calculated to amortize the cost of depreciable assets over their estimated useful lives.

Provision for depreciation on certain buildings is based on the straight-line method using an annual rate of 2½% and on the declining-balance method on other buildings using an annual rate of 5%.

Provision for depreciation on machinery and equipment is computed principally on the declining-balance method using annual rates of 10%, 20%, or 30%, and on other machinery and equipment on the straight-line method using the rate of 10%.

Leasehold improvements are amortized on the straight-line method over the life of the lease or five years, whichever is less.

Deferred Taxes: The Company recognizes deferred income taxes resulting from timing differences between financial and tax accounting, relating principally to depreciation and pension costs.

Pension Costs: The Company accounts for current pension costs on an accrual basis and for past service costs not previously provided for, on a cash basis in accordance with funding recommended by the Company's consulting actuary and as governed by the Supplemental Pension Plan Act of the Province of Quebec.

Research and Development: Research and development costs are charged to operations as incurred.

NOTE 2 — DEFERRED LOSS ON EXCHANGE

Other assets include a deferred loss on exchange of \$266,213 which will be amortized over the remaining life of the note payable to parent company. In 1978 the amortization of the deferred loss on exchange charged to operations was \$24,201.

NOTE 3 — NOTES PAYABLE

	1978	1977
Note payable to parent company (\$4,500,000 U.S.) due February 1988, with interest at ½ of 1% above prime as determined by the National City Bank Cleveland	\$5,334,914	\$ —0—
Note payable to bank, due February 1980, with interest at 1% above prime rate	—0—	5,000,000
	<u>\$5,334,914</u>	<u>\$5,000,000</u>

NOTE 4 — PENSION OBLIGATION

During 1978 an actuarial valuation of the Company's pension plans as at December 31, 1977 was finalized. The actuarial estimate of the Company's liability in respect of past service benefits not provided for is approximately \$2,106,000 as at December 31, 1978 (\$2,494,000 as at December 31, 1977). The Company will charge this liability to operations over the lesser of the estimated working lives of the employees concerned or fifteen years.

Notes to Financial Statements (cont'd)

NOTE 5 — LOSS CARRY FORWARD

The loss carry forward for income tax purposes as of December 31, 1978 amounts to approximately \$8,200,000 and expires in the undernoted fiscal years:

1981	\$ 695,000
1982	2,391,000
1983	5,114,000
	\$8,200,000

NOTE 6 — SEGMENTATION OF REVENUES

The Company considers its classes of business, each of which contributes 10% or more of the total gross revenue of the Company, to be (i) manufacture and sale of paints and varnishes which constituted 72% (December 1977 — 74%) and (ii) retail sale of decorative materials and supplies which constituted 28% (December 1977 — 25%) of total revenues.

NOTE 7 — LEASES

The future minimum rental commitments as of December 31, 1978, for all leases are as follows:

	Total	Building Space	Equipment
1979	\$ 2,038,000	\$ 1,737,000	\$301,000
1980	1,617,000	1,443,000	174,000
1981	1,218,000	1,198,000	20,000
1982	868,000	853,000	15,000
1983	877,000	866,000	11,000
1984-1988	2,720,000	2,720,000	—0—
1989-1993	1,184,000	1,184,000	—0—
1994-1998	307,000	307,000	—0—
1999 on	846,000	846,000	—0—
TOTALS.....	\$11,675,000	\$11,154,000	\$521,000

NOTE 8 — CONTINGENT LIABILITY

The Company is the defendant in a legal action instituted in the Alberta Supreme Court by McCready Products Ltd. for alleged product defect. The amount claimed is \$1,659,392 and the Company's legal counsel is unable, at the present time, to give any opinion with respect to the merits of this action. Settlement, if any, that may be made with respect to this action, is expected to be accounted for as a charge against income for the period in which settlement is made.

NOTE 9 — ANTI-INFLATION ACT

The Company is subject to the Anti-Inflation Act and Regulations and consequently its ability to increase prices, profit margins, compensation and dividends subsequent to October 14, 1975 is restricted.

NOTE 10 — RECLASSIFICATIONS

Certain 1977 figures have been reclassified so as to compare with 1978 presentation.

Notes to Financial Statements (cont'd)

NOTE 11 — STATUTORY INFORMATION

	Year Ended December 31, 1978		Year Ended December 31, 1977	
	Number	Amount	Number	Amount
Remuneration of Directors and Officers				
Directors	8	\$ 9,856	10	\$ 8,624
Officers	6	232,133	6	299,675
Officers who are also Directors.....	3		5	

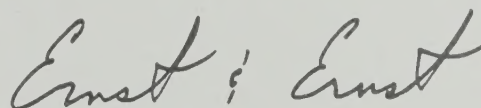
Accountant's Report

To the Shareholders

The Sherwin-Williams Company of Canada Limited

We have examined the balance sheet of The Sherwin-Williams Company of Canada Limited as at December 31, 1978, and the statements of operations, retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the matter referred to in Note 8, these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



January 25, 1979

Chartered Accountants

